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THE EXPANSION AND CONSOLIDATION OF THE JAPANESE GOLD EXCHANGE STANDARD SYSTEM.

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I.

Japan, having imported capitalistic economy from advanced Western Countries, had to pass through a very difficult stage in the operation of the monetary standard system which forms the nucleus of capitalistic economy. In regard to the adoption and operation of the gold exchange standard system in the Meiji and Taishô eras at least, there is something which calls for deep reflection and study at the present time, because of the peculiar circumstances in which Japan was placed in those days, or, in other words, because Japan, as a backward country, had to develop her capitalistic economy when advanced Western Powers were already passing from the stage of industrial capitalistic economy to that of financial capitalistic economy. In the process of the development and evolution of Japanese capitalistic economy, the Japanese gold exchange standard system has often come up for serious study. The development of this economy was necessarily attended by the evolution of the gold exchange standard system. Here I have no time to discuss this phase of the problem in detail. It is nevertheless worthy of note that, in the meantime, in Japan the idea of controlled currency, which at one time gained general support, gave way to the controlled gold standard system and that these two standard systems—the gold exchange standard system and the controlled currency system—, which at first appeared to be diametrically opposed to each other, came to assume the aspect of being one and

the same thing, in substance. In this regard the World War was an epoch-making incident.

Broadly speaking, the World War was instrumental in converting the advanced capitalistic countries of the world into financial capitalistic countries. Japan was no exception to the rule. Thus, after the World War, her gold exchange standard system assumed a financial capitalistic character to a marked degree and began to display much activity in the field of investments. This had the natural effect of helping the activity of the Bank of Corea in Manchuria and of strengthening the gold exchange standard system of the Central Bank of Manchoukuo when that country adopted the system after declaring independence. In such circumstances, Japan's interest in North China and elsewhere has gradually increased.

The recent course of events has compelled Japanese economy to be organized on the so-called wartime basis instead of on the quasi-wartime basis, on which it has for some time been placed. This objective circumstance has also forced the Japanese gold exchange standard system to be further extended and strengthened. There are many things which merit attention in this connection, but in the present article my attention will be confined to matters relative to the extension and the strengthening of the Japanese gold exchange standard system.

2.

As already stated, the expansion and consolidation of the Japanese gold exchange standard system is a necessary corollary of the development of the Japanese capitalistic economy, and the various circumstances which Japan, as a link in the chain of the world economy, or more especially as a link in the chain of the Far Eastern economy, has had to face, have compelled her to determine her attitude towards this problem. It is hardly necessary to mention that the impelling motive was furnished by the inconsistency between the policy for the expansion of Japanese productive

power, which has been rendered necessary by the international or Far Eastern unrest which has been intensified of late, and the exchange policy.

In such circumstances, the Government introduced and passed in the recent extraordinary session of the Diet the Gold Production Bill, the Gold Reserve Valuation Bill, the Gold Funds Special Account Bill, the Bill providing for the abolition of the Law for the Purchase of Gold by the Bank of Japan, the Bank of Korea Revision Bill, the Bank of Formosa Revision Bill, the Foreign Exchange Control Revision Bill, and the Bill for revision of the Yokohama Specie Bank Regulations, thereby defining the direction and the intensity of the policy which it proposed to adopt in regard to this problem. The more important of these measures refer to the increase in the production of the gold required for the operation of the gold standard system, the increase in the gold reserve which is necessary for the employment of this gold consistently with the aims of the gold standard system, and the strengthening of the Government's control over gold and credit. All this is closely linked to the gold exchange standard system now being operated in Japan and it serves to stimulate the expansion and consolidation of the system. Generally speaking, the gold exchange standard system operates where gold and credit are combined, and as to the countries which play the principal part in its operation, let alone the countries which adopt the system, some possess gold in plenty but do not like to export it, while some others are countries which produce gold in comparatively small quantities. For instance, Japan is a country which, in spite of a limited gold production, is operating the gold exchange standard system, while the United States is a country which is amply supplied with gold. As Japan is enforcing the gold exchange standard system in such circumstances, she is obliged to extend and strengthen this system in its relation to the expansion of productive power and to the exchange policy, as her economy passes from the quasi-wartime basis to the war-

time basis.

In this sense, it is hardly necessary to say that Japan must strive to increase her gold production in enforcing her gold exchange standard system.¹⁾ Even more important is it for Japan to extend and consolidate credit. It will thus be seen that the Gold Reserve Valuation Law and the Gold Funds Special Account Law are more important than the Gold Production Law.

3.

From the above-mentioned point of view, the revaluation of gold was carried out by way of expanding Japan's wartime gold exchange standard system. Not only was the new rate of valuation applied to the gold held by the Bank of Japan, but it was also applied to that held by the Bank of Corea and the Bank of Formosa, and the gold reserves of these two Banks were alike turned into credit reserves. So far as the consolidation of the system is concerned, it was so arranged that the Government should take over the purchase of gold, which was formerly left in the hands of the Bank of Japan, and that a Director of the Bank of Japan should, in case of need, hold the Vice-Presidency of the Yokohama Specie Bank additionally. Let me explain the matter in fuller detail.

First, as to the expansion of the system. By the revaluation of the gold held by the Bank of Japan, according to which the basis of valuation was altered from 750 milligrammes of gold per yen to 390 milligrammes per yen, that is, by changing the value of gold from ¥5 per *momme* to ¥12.961 per *momme*—this standard of valuation, it should

1) The Government calculates that the quantity of gold produced in Japan, inclusive of the overseas possessions, in 1937 will amount to 50 metric tons and that in 1942 the total output in Japan proper will be 75 metric tons, while the aggregate production in Japan and in her overseas possessions will be 131 metric tons. In value, the gold output in 1937 is estimated at some ¥180,000,000 and that in 1942 at about ¥500,000,000. (From the stenographic record of the proceedings in the 71st session of the Diet.)

be remarked, allows a margin of 10 per cent. against the international standard of valuation—it was intended to realize an assessment profit of some ¥740,000,000, in order to transfer this profit to the Government, and, through it, to facilitate the purchase from the Bank of Japan of gold for shipments abroad, the purchase of newly-mined gold and the raising of loan funds.²⁾ To put it more concretely, it is said that of this ¥740,000,000, some ¥420,000,000 is to be used as a fund for the purchase of gold, ¥120,000,000 as a fund for the purchase of newly-mined gold, and the balance, viz., ¥200,000,000, as a loan fund.

In short, the Government proposes to increase the specie reserve of the Bank of Japan, which is gradually diminishing on account of gold shipments, to ¥800,000,000, through the operation of the Gold Reserve Valuation Law, and to give the Bank of Japan the power to issue notes to the extent of ¥1,800,000,000—the aggregate of the ¥800,000,000 mentioned above and the security reserve amounting to ¥1,000,000,000—, thereby clearly defining the meaning of the fiduciary note issues, on the one hand, and relieving the Bank of Japan of the necessity of paying in to the Government on the other. This not only argues the possession of plentiful gold funds by the Government but testifies to the strength of the Japanese gold exchange standard system.

Another point worthy of note is that the gold held by the Bank of Corea and the Bank of Formosa has been concentrated in the Central Government by the new arrangement, under which these Banks have been exempted from the duty of putting up their reserves in gold, so that they might substitute credit reserves for their gold reserves. In consequence, the Bank of Japan notes are now used by these Banks as the reserve against payments. This means

2) Suppose that this loan fund has been allotted to Manchoukuon public bonds; then it will be seen that this problem can most closely be linked to the Japanese gold exchange standard system.

that the Japanese gold exchange standard system has been extended in scope to that extent. This extension is expected to have particularly important bearings on Japan's future activities in North China, in which the Bank of Korea is interested, and in Central and South China with which the Bank of Formosa is concerned. In this regard, it is to be noted that the amount of note issue has been increased from ¥50,000,000 to ¥100,000,000 in the case of the Bank of Korea and from ¥20,000,000 to ¥50,000,000 in that of the Bank of Formosa. Especially has the extension of the Japanese gold exchange standard system served to stimulate the southward activities of the Bank of Formosa, for the reserve of this Bank, unlike that of the Bank of Korea, has hitherto been in gold and silver coins and bullion. In other words, it may be said that the Japanese gold exchange standard system, which has hitherto operated more for the promotion of the country's northward development than for her southward development, has come to work equally for her southward and northward development.

Next, as to the consolidation of the system. The Japanese gold exchange standard system, as one which is in operation in a country with comparatively little gold, needs to have its power to operate strengthened. This is especially so in regard to the wartime operation of credit money. The Government has, therefore, increased the elasticity of its operation by securing possession of gold funds other than the Bank of Japan's reserve against its note issue. Moreover, as it often happens that these are employed as gold exchange funds through the Bank of Japan and the Yokohama Specie Bank, the Government has, as already mentioned, opened the way for the appointment of another Director for the Bank of Japan so that he may be given the Vice-Presidency of the Yokohama Specie Bank additionally. It is believed that this arrangement will also prove of much use in connection with the foreign exchange control.

4.

The Japanese Government is now directing the national economy with the removal of the drawbacks of capitalistic economy in view. The same consideration must dictate the operation of the gold exchange standard system. Japan was until recently busily occupied with the work of fostering capitalistic economy imported from advanced European capitalistic countries, but now, unable to stand its drawbacks, she is obliged to consider the removal of these drawbacks, notwithstanding the fact that she is so circumstanced that she has to operate the gold exchange standard system, which is a natural outcome of capitalistic economy.

Thus, Japan is pushing measures for the all-round extension and consolidation of the gold exchange standard system. The fact that Japanese economy partakes of the nature of financial capitalism, which is making remarkable development at the present time, at once claims special attention and requires elaborate measures in operating the gold exchange standard system. Its extension and consolidation is, of course, inevitable in the existing circumstances, and yet the question of how and to what extent it should be extended and strengthened deserves serious attention.